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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

U.S. GEOTHERMAL, INC. AN IDAHO CORPORATION, **Complainant** **vs** **IDAHO POWER COMPANY, AN IDAHO CORPORATION,** **Respondent**	**CASE NO. IPC-E-04-8**
BOB LEWANDOWSKI and MARK SCHROEDER, **Complainant** **vs** **IDAHO POWER COMPANY, AN IDAHO CORPORATION,** **Respondent**	**CASE NO. IPC-E-04-10** **REPLY TO PACIFICORP'S AND IDAHO POWER COMPANY'S ANSWERS TO PETITION FOR RECONSIDERATION**

Energy Vision, LLC (EnVision) would like to file a brief reply to Pacificorp's and Idaho Power Company's (IPC) Answers to Petitions for Reconsideration.

1. Commission Authority

The utilities argue that the Commission had ample authority to make its decision. Speaking only for ourselves, we agree with that position. However, we do not agree that the record has been adequately developed regarding using market prices for performance shortfalls. This has become even more important since IPC, in their wind RFP, is requiring that "the performance of the proposed projects should be consistent with Idaho PUC Order 29632."

As we feared, the performance band is the new weapon of choice to impede renewables. Now the issue is no longer limited to projects selling at published prices (a breakeven proposition for the ratepayers), but has been extended to resources acquired through bidding. This is not a breakeven proposition. The ratepayers will pay higher bid prices due to the performance band. There is insufficient information in the record for the Commission to decide whether the extra cost to the ratepayers is worth it. In regards to the subject proceedings, there is equally insufficient information for the Commission to decide whether the financing barrier created by the new performance mechanism is justified.

2. Economics versus Financing.

In IPC's answer, they point out that the increases in project size and published prices will improve QF project economics. However, <u>the performance band is not an economic issue</u>. It is a financing issue. It takes massive economic stimulus to overcome financing problems, because you drive the QF from efficient project financing to extremely expensive venture capital. Compared to fossil fuel plants, renewable energy facilities are highly capital intensive on a cents/kWh basis. So, increases in a QF's cost of capital have a magnified impact on its ability to compete with avoided costs.

3. Red Herrings

In IPC's answer, we were accused of raising a "red herring" by pointing out that the market based mechanism sends incorrect price signals. At the same time, wind is resource dependent and cannot voluntarily increase output. We would like to note that wind is not the only QF technology. Certainly biomass producers can take actions that increase output. Also, in the case of wind, we face repair and maintenance decisions that can reduce output. Both of these types of decisions would be made with incorrect incentives with respect to the ratepayer.

The real red herring here is IPC pointing to their existing contracts to demonstrate the acceptability of their own penalty mechanism and market risks. There are always special cases. For IPC, we understand that these include: a hydro project with a firming arrangement, a biomass project which is one of the only renewable technologies with fuel inventory and a wind project which is being used to help finance a long transmission interconnection for the expansion of a core gravel business. If these are the only types of projects which should receive published prices, then let the current decision stand.

4. Conclusion

As the utilities noted, PURPA was intended to encourage the development of renewable energy as long as the ratepayer is indifferent. That has not happened in Idaho. Renewables have been generally cost effective for a long time yet there has been little success here. The problem was not economic, but institutional. Although utilities can negotiate anything they want, at any time, nothing happened – even as neighboring states moved forward. The Commission boldly sought to remedy this by increasing the availability of published prices to larger projects. It is our hope, that the Commission's use of market prices as a performance incentive was intended to remove the barrier created by the utilities' shortfall penalty. Unfortunately, this new mechanism has unintended side effects which negate the Commission's objectives in raising the ceiling in the first place.

We cannot implement renewables by forcing them to act exactly like fossil fuels. They are different. Renewables typically tap a flow of energy rather than a store (like a barrel of oil or a lump of coal). They also don't poison the environment. These differences can be balanced and mitigated in effective ways which achieve ratepayer indifference without blocking financing and implementation.

Submitted this 23 day of December 2004:

By____________________

Glenn Ikemoto, Principal
Energy Vision, LLC

CERTIFICATE OF SERVICE

I hereby certify that on ____ day of December 2004, that I emailed and caused to be mailed, U.S. Mail postage prepaid to all parties of record in the above captioned matter.

By ______________________________
Glenn Ikemoto
Energy Vision, LLC